REPORT OF THE AUDIT OF THE HARRISON COUNTY SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
April 1, 2007 Through March 28, 2008

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARRISON COUNTY SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
April 1, 2007 Through March 28, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for Harrison County Sheriff for the period April 1, 2007 through March 28, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of $6,747,383 for the districts for 2007 taxes, retaining commissions of $222,199 to operate the Sheriff's office. The Sheriff distributed taxes of $6,515,390 to the districts for 2007 taxes. Refunds of $410 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS PAGE

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Alex Barnett, Harrison County Judge/Executive
Honorable Bruce Hampton, Harrison County Sheriff
Members of the Harrison County Fiscal Court

Independent Auditor's Report

We have audited the Harrison County Sheriff's Settlement - 2007 Taxes for the period April 1, 2007 through March 28, 2008. This tax settlement is the responsibility of the Harrison County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Harrison County Sheriff's taxes charged, credited, and paid for the period April 1, 2007 through March 28, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered when assessing the results of our audit.

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067
WWW.AUDITOR.KY.GOV

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Alex Barnett, Harrison County Judge/Executive
Honorable Bruce Hampton, Harrison County Sheriff
Members of the Harrison County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

August 8, 2008

HARRISON COUNTY
BRUCE HAMPTON, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period April 1, 2007 Through March 28, 2008

Charges	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	$ 734,219	$ 1,404,270	$ 2,804,718	$ 910,682
Tangible Personal Property	72,440	110,852	163,371	261,694
Increases Through Exonerations	266	534	982	300
Franchise Taxes	67,702	148,629	215,645	
Additional Billings	139	254	530	751
Penalties	4,989	9,767	18,989	6,385
Adjusted to Sheriff's Receipt	6	13		
Gross Chargeable to Sheriff	879,761	1,674,319	3,204,235	1,179,812
Credits				
Exonerations	19,773	4,686	9,371	3,042
Discounts	11,824	22,637	44,230	18,263
Franchise Taxes	8,977	20,168	27,773	
Total Credits	40,574	47,491	81,374	21,305
Taxes Collected	839,187	1,626,828	3,122,861	1,158,507
Less: Commissions *	35,953	58,650	78,072	49,524
Taxes Due	803,234	1,568,178	3,044,789	1,108,983
Taxes Paid	801,952	1,566,417	3,039,799	1,107,222
Refunds (Current and Prior Year)	1,282	2,171	4,990	1,761
Refund Due Sheriff as of Completion of Audit	$ 0	** $ (410)	$ 0	$ 0

The accompanying notes are an integral part of this financial statement.

HARRISON COUNTY
BRUCE HAMPTON, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES
For The Period April 1, 2007 Through March 28, 2008
(Continued)

* Commissions:

10% on	$ 10,000
4.25% on	$ 3,291,759
2.5% on	$ 3,122,861
1% on	$ 322,763

** Special Taxing Districts:

Fire District	$ (410)
Refund Due Sheriff	$ (410)

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENT

March 28, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Harrison County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of March 28, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 18, 2007 through March 28, 2008.

Note 4. Interest Income

The Harrison County Sheriff earned $13,779 as interest income on 2007 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Harrison County Sheriff collected $33,247 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Harrison County Sheriff collected $1,605 of advertising costs and $1,605 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Alex Barnett, Harrison County Judge/Executive
Honorable Bruce Hampton, Harrison County Sheriff
Members of the Harrison County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Harrison County Sheriff's Settlement - 2007 Taxes for the period April 1, 2007 through March 28, 2008, and have issued our report thereon dated August 8, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

105 Sea Hero Road, Suite 2
Frankfort, KY 40601-5404
Telephone 502.573.0050
Facsimile 502.573.0067
www.auditor.ky.gov

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harrison County Sheriff's Settlement - 2007 Taxes for the period April 1, 2007 through March 28, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Harrison County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

August 8, 2008

COMMENT AND RECOMMENDATION

HARRISON COUNTY
BRUCE HAMPTON, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 1, 2007 Through March 28, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

The Sheriff's office has a lack of adequate segregation of duties over tax receipts and disbursements. The employee responsible for handling tax receipts also records the receipts in the ledger, prepares the bank deposit, and performs the monthly bank reconciliation. Additionally, the same employee prepares disbursement checks, is an authorized signer of checks, and is not independent of purchasing and receiving functions. Having the same employee perform these functions increases the risk that errors or fraud may go undetected. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

- The Sheriff should periodically perform surprise cash counts and recount cash. The Sheriff should document this by initialing the deposit ticket.

- The Sheriff should require dual signatures on all disbursement checks, with one required signature being that of the Sheriff.

- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: No response.